

**CITY OF FAIRFAX**

**INDEPENDENT AUDITOR'S REPORT**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**June 30, 2015**

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## CITY OF FAIRFAX

### OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jason Rabe	Mayor	Jan. 2016
Marianne Wainwright	Mayor Pro tem	Jan. 2018
Travis Otto	Council Member	Jan. 2016
Marc Magers	Council Member	Jan. 2016
JoAnn Beer	Council Member	Jan. 2018
Bernie Frieden	Council Member	Jan. 2018
Cynthia Stimson	City Clerk/Treasurer	Indefinite
Kathy Everett	Deputy Clerk	Indefinite
Randy Scholer	Attorney	Indefinite

# Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

**STEVEN S. CLAUSEN, CPA**

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Elkader, Iowa 52043

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of

the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to in the first paragraph of this report present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Fairfax as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

### Emphasis of a Matter

As disclosed in Note 5 to the financial statements, the City of Fairfax adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

### Other Matters

#### *Supplementary and other information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfax's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on the June 30, 2014, 2013, 2012 and 2011 financial statements and a qualified opinion on the June 30, 2010 financial statements, all of which were prepared on the basis of cash basis and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the City's Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 15 and 35 through 40, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2015 on our consideration of the City of Fairfax's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Fairfax's internal control over financial reporting and compliance.

Elkader, Iowa

December 18, 2015

  
Dietz, Donald & Company  
Certified Public Accountants  
FEIN 42-1172392

# *City of Fairfax*

*Office of the Clerk*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fairfax provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

### **2015 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 20.1%, or approximately \$ 1.196 million from fiscal 2014 to fiscal 2015. Property tax increased approximately \$ 171,000 and bond proceeds decreased approximately \$ 1.756 million.
- Disbursements of the City's governmental activities decreased 18.2% or approximately \$ 916,000 in fiscal 2015 from fiscal 2014. Public works and debt service disbursements decreased approximately \$ 624,000 and \$ 451,000, respectively, while culture and recreational disbursements increased approximately \$ 262,000.
- The City's total cash basis net position increased 29.0%, or approximately \$ 779,000 from June 30, 2014 to June 30, 2015. Of this amount, the cash basis net position of the governmental activities decreased approximately \$ 312,000 and the cash basis net position of the business type activities increased approximately \$ 1.091 million.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.



The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major proprietary funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases and decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

1. Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, and debt service. Property tax, bond proceeds, and state grants finance most of these activities.

2. Business Type Activities include the waterworks, the sanitary sewer system, solid waste disposal and farming operations. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include [a] the General Fund, [b] the Special Revenue Funds, such as Urban Renewal Tax Increment and Local Option Sales Tax, and [c] the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to account for business type activities. The City maintains four Enterprise Funds to provide separate information for the Water, Sewer, Garbage and Farm Operation Funds. The Water and Sewer Funds are considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing approximately \$ 312,000 to approximately \$ 1.965 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities  
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Receipts:		
Program receipts:		
Charges for service	\$ 202	198
Operating grants and contributions	290	252
Capital grants and contributions	357	87
General receipts:		
Property tax	1,466	1,295
Local option sales tax	254	254
Unrestricted grants	6	0
Unrestricted interest on investments	9	11
Bond proceeds	2,080	3,836
Other general receipts	94	22
Total receipts	<u>4,758</u>	<u>5,955</u>
Disbursements:		
Public safety	383	479
Public works	1,301	1,926
Culture and recreation	1,029	767
Community and economic development	16	5
General government	253	271
Debt Service	<u>1,147</u>	<u>1,597</u>
Total disbursements	<u>4,129</u>	<u>5,045</u>
Change in cash basis net position before transfers	629	910
Transfers, net	<u>(941)</u>	<u>208</u>
Change in cash basis net position	(312)	1,118
Cash basis net position beginning of year	<u>2,277</u>	<u>1,159</u>
Cash basis net position end of year	<u>\$ 1,965</u>	<u>2,277</u>

The City's total receipts for governmental activities decreased 20.1%, or approximately \$ 1.196 million. The total cost of programs and services decreased approximately \$ 916,000 or 18.2%. The significant decrease in receipts was primarily the result of a lesser amount of bonds being issued in 2015. The significant decrease in disbursements was primarily the result of the East Cemetery Road water and sewer improvements being completed and less debt service requirements in 2015.

City property tax receipts increased approximately \$ 171,000 in 2015. Property taxes are budgeted to increase approximately \$ 41,000 in 2016, due primarily to an 6.7% increase in property valuations.

The cost of all governmental activities this year was approximately \$ 4.129 million compared to \$ 5.045 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 17 - 18, the amount taxpayers ultimately financed for these activities was only \$ 3.280 million because some of the cost was paid by those directly benefited from the programs (\$ 202,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 647,000). Overall in 2015, the City's governmental activities program receipts, including intergovernmental aid and fees for services, increased from approximately \$ 536,000 to approximately \$ 849,000, principally due to an increase in capital grants. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 1.720 million in tax (some of which could only be used for certain programs) and with other receipts, such as bond proceeds.

Changes in Cash Basis Net Position of Business Type Activities  
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 202	229
Sewer	377	384
Garbage	123	118
Farm	9	13
General receipts		
Miscellaneous	6	5
Total receipts	<u>717</u>	<u>749</u>
Disbursements:		
Water	223	174
Sewer	219	234
Garbage	120	114
Farm	6	13
Total disbursements	<u>568</u>	<u>535</u>

Change in cash basis net position before transfers	\$ 149	214
Transfers, net	<u>941</u>	<u>(208)</u>
Change in cash basis net position	1,090	6
Cash basis net position beginning of year	<u>407</u>	<u>401</u>
Cash basis net position end of year	<u>\$ 1,497</u>	<u>407</u>

Total business type activities receipts for the fiscal year were approximately \$ 717,000 compared to \$ 749,000 last year. The decrease was due primarily to a decrease in usage. Total disbursements increased from approximately \$ 535,000 to approximately \$ 568,000, a 6.2% increase.

### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfax completed the year, its governmental funds reported a combined fund balance of \$ 1,964,972, a decrease of \$ 311,720 from last year's total of \$ 2,276,692. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$ 468,379 from the prior year to \$ 1,576,206. The decrease was due primarily to general obligation bond proceeds disbursed for the East Cemetery Road Improvement in fiscal 2015.
- The Special Revenue, Local Option Sales Tax Fund was established to account for the voter approved sales tax proceeds. Sales tax receipts totaled \$ 253,933, while disbursements and transfers totaled \$ 110,457. The fund balance of \$ 328,006 can be used for any legal purpose.
- The Special Revenue, Urban Renewal Tax Increment Fund was established to account for projects within the City's urban renewal districts. At the end of the fiscal year, the cash balance was \$ 26,543, an increase of \$ 15,378 from the previous year. Receipts in the fund are being used to retire debt acquired from extending infrastructure and improving land in the urban renewal districts. Receipts were \$ 27,383 less than budgeted.
- The Debt Service Fund balance retired \$ 879,000 of outstanding debt and paid \$ 267,467 of interest and service fees during fiscal 2015. The Debt Service Fund received \$ 71,900 from the General Fund, \$ 818,764 from the Special Revenue, Urban Renewal Tax Increment Fund, \$ 10,381 from the Enterprise, Water Fund, \$ 194,498 from the Enterprise, Sewer Fund, \$ 25,591 from the Special Revenue, Local Option Sales Tax Fund and \$ 31,051 in general obligation bond proceeds to cover bond issuance costs.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$ 848,868 to \$ 1,017,373, due primarily to unspent bond proceeds of \$ 879,000.
- The Enterprise, Sewer Fund cash balance increased \$ 258,638 to \$ 448,571, due primarily to unspent bond proceeds of \$ 295,000.

## BUDGETARY HIGHLIGHTS

Over the course of the year the City amended its budget once. The amendment was approved on March 10, 2015 and resulted in an increase in operating disbursements of \$ 397,000, primarily due to completion of the East Cemetery Road Project.

The City's receipts were \$ 167,961 less than budgeted. This was primarily due to the City not receiving as much in state grants and utility charges as anticipated.

Actual disbursements for the public works, culture and recreation, and business type activities functions were \$ 338,868, \$ 295,430, and \$ 520,470 less than the amended budget, respectively. This was primarily due to timing differences for the water and sewer extension project.

## DEBT ADMINISTRATION

At June 30, 2015, the City had \$ 10,614,543 of long-term debt outstanding, compared to \$ 9,390,739 last year, as shown in the following.

<u>Outstanding Debt at Year-End</u> <u>(Expressed in Thousands)</u>		
	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
General obligation notes	\$ 645	790
General obligation bonds	8,033	6,558
Revenue bonds	1,886	2,015
Lease/purchase agreement	<u>51</u>	<u>28</u>
Total	<u>\$ 10,615</u>	<u>9,391</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 8,728,543 is less than its constitutional debt limit of approximately \$ 9.6 million.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Fairfax's elected and appointed officials and citizens considered many factors when setting the fiscal year 2016 budget, tax rates and fees that will be charged for various City activities. One of these factors is the economy. The City has experienced over a 138% increase in population from 2000 to 2010. Taxable valuations increased 5.2% between January 1, 2013 and January 1, 2014.

These indicators were taken into account when adopting the budget for fiscal year 2016. Amounts available for appropriation in the operating budget are \$ 3.071 million, a decrease of 42.9% from the final 2015 budget. Property taxes are budgeted to increase \$ 30,617. The tax levy rate remains unchanged. Disbursements are budgeted to increase approximately \$ 81,000.

If these estimates are realized, the City's budgeted cash balance is expected to decrease \$ 3,010,462 by the close of 2016.

## **CONTACTING THE CITY'S MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Cynthia Stimson, City Clerk/Treasurer; 525 Vanderbilt Street; Fairfax, Iowa 52228-0337.

## BASIC FINANCIAL STATEMENTS



Exhibit A

CITY OF FAIRFAX  
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION  
As of and for the Year Ended June 30, 2015

Functions/Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
		Charges for Service	Operating Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 383,152	123,985	21,982	-	(237,185)	-	(237,185)
Public works	1,301,332	-	262,297	-	(1,039,035)	-	(1,039,035)
Culture and recreation	1,029,373	32,153	6,394	356,686	(634,140)	-	(634,140)
Community and economic development	15,740	150	-	-	(15,590)	-	(15,590)
General government	253,202	45,621	-	-	(207,581)	-	(207,581)
Debt service	1,146,467	-	-	-	(1,146,467)	-	(1,146,467)
Total governmental activities	4,129,266	201,909	290,673	356,686	(3,279,998)	-	(3,279,998)
Business type activities:							
Water	222,822	202,291	-	-	-	(20,531)	(20,531)
Sewer	218,648	376,774	-	-	158,126	158,126	158,126
Garbage	119,572	122,426	-	-	2,854	2,854	2,854
Farm operations	6,418	8,976	-	-	2,558	2,558	2,558
Total business type activities	567,460	710,467	-	-	143,007	143,007	143,007
Total	\$ 4,696,726	912,376	290,673	356,686	(3,279,998)	143,007	(3,136,991)
General Receipts and Transfers:							
Property and other city tax					605,964	-	605,964
Tax increment financing					860,078	-	860,078
Local option sales tax					253,933	-	253,933
Grants not restricted to specific purposes					6,001	-	6,001
Unrestricted interest on investments					9,373	20	9,393
Bond proceeds					2,080,000	-	2,080,000
Miscellaneous					22,766	6,423	29,189
Sale of capital assets					71,200	-	71,200
Transfers					(941,037)	941,037	-
Total general receipts and transfers					2,968,278	947,480	3,915,758
Change in cash basis net position					(311,720)	1,090,487	778,767
Cash basis net position beginning of year					2,276,692	406,644	2,683,336
Cash basis net position end of year					\$ 1,964,972	1,497,131	3,462,103

(continued)

CITY OF FAIRFAX  
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION  
As of and for the Year Ended June 30, 2015

	Governmental Activities	Business Type Activities	Total
Cash Basis Net Position			
Restricted:			
Nonexpendable:			
Meter deposits	\$ -	15,420	15,420
Expendable:			
Debt service	14,117	39,365	53,482
Streets	20,100	-	20,100
Fire department	67,015	-	67,015
Fireworks	18,683	-	18,683
Library	223,784	-	223,784
Parks	16,270	-	16,270
Capital projects	30,169	1,178,914	1,209,083
Fire truck	515,000	-	515,000
Urban renewal purposes	26,543	-	26,543
Other purposes	328,006	-	328,006
Unrestricted	705,285	263,432	968,717
Total cash basis net position	\$ 1,964,972	1,497,131	3,462,103

See notes to financial statements.

Exhibit B

CITY OF FAIRFAX  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2015

	General	Special Revenue			Debt Service	Nonmajor Road Use Tax		Total
		Local Option Sales Tax	Renewal Tax Increment	Urban Increment		Tax	Tax	
Receipts:								
Property tax	\$ 597,563	-	-	-	-	-	-	597,563
Tax increment financing	-	-	-	-	-	-	-	-
Other city tax	8,401	253,933	-	860,078	-	-	-	860,078
Licenses and permits	33,156	-	-	-	-	-	-	33,156
Use of money and property	8,463	-	910	-	-	-	-	9,373
Intergovernmental	560,358	-	-	-	-	-	220,755	781,113
Charges for service	3,453	-	-	-	-	-	-	3,453
Miscellaneous	60,313	-	-	-	-	-	-	60,313
Total receipts	1,271,707	253,933	-	860,988	-	-	220,755	2,607,383
Disbursements:								
Operating:								
Public safety	383,152	-	-	-	-	-	-	383,152
Public works	1,057,272	6,993	-	-	-	237,067	-	1,301,332
Culture and recreation	956,960	72,413	-	-	-	-	-	1,029,373
Community and economic development	15,740	-	-	-	-	-	-	15,740
General government	253,202	-	-	-	-	-	-	253,202
Debt service	-	-	-	-	1,146,467	-	-	1,146,467
Total disbursements	2,666,326	79,406	-	-	1,146,467	237,067	-	4,129,266
Excess (deficiency) of receipts over (under) disbursements	(1,394,619)	174,527	-	860,988	(1,146,467)	(16,312)	-	(1,521,883)
Other financing sources (uses):								
Bond proceeds	-	-	-	-	2,080,000	-	-	2,080,000
Sale of capital assets	71,200	-	-	-	-	-	-	71,200
Operating transfers in	926,940	-	-	-	1,126,584	-	-	2,053,524
Operating transfers out	(71,900)	(31,051)	-	(845,610)	(2,046,000)	-	-	(2,994,561)
Total other financing sources (uses)	926,240	(31,051)	-	(845,610)	1,160,584	-	-	1,210,163
Change in cash balances	(468,379)	143,476	-	15,378	14,117	(16,312)	-	(311,720)
Cash balances beginning of year	2,044,585	184,530	-	11,165	-	36,412	-	2,276,692
Cash balances end of year	\$ 1,576,206	328,006	-	26,543	14,117	20,100	-	1,964,972

(continued)

Exhibit B  
(continued)

CITY OF FAIRFAX  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2015

	General	Special Revenue			Debt Service	Nonmajor		Total
		Local Option Sales Tax	Urban Renewal Tax Increment	Road Use Tax		Road Use Tax		
Cash Basis Fund Balances:								
Restricted for:								
Streets	\$ -	-	-	-	-	20,100	-	20,100
Fire department	67,015	-	-	-	-	-	-	67,015
Fireworks	18,683	-	-	-	-	-	-	18,683
Library	223,784	-	-	-	-	-	-	223,784
Parks	16,270	-	-	-	-	-	-	16,270
Capital projects	30,169	-	-	-	-	-	-	30,169
Fire truck	515,000	-	-	-	-	-	-	515,000
Urban renewal purposes	-	-	26,543	-	-	-	-	26,543
Debt service	-	-	-	-	14,117	-	-	14,117
Other purposes	-	328,006	-	-	-	-	-	328,006
Unassigned	705,285	-	-	-	-	-	-	705,285
Total cash basis fund balances		\$ 1,576,206	328,006	26,543	14,117	20,100	-	1,964,972

See notes to financial statements.

CITY OF FAIRFAX  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
As of and for the Year Ended June 30, 2015

	Enterprise			
	Water	Sewer	Nonmajor	Total
Operating receipts:				
Charges for service	\$ 201,816	376,299	131,402	709,517
Operating disbursements:				
Business type activities	198,075	218,648	125,990	542,713
Excess of operating receipts over				
Operating disbursements	3,741	157,651	5,412	166,804
Non-operating receipts (disbursements):				
Licenses and permits	475	475	-	950
Interest on investments	-	-	20	20
Utility deposits/miscellaneous	6,750	-	5,643	12,393
Utility deposits refunded	(5,970)	-	-	(5,970)
Capital projects	(24,747)	-	-	(24,747)
Net non-operating receipts				
(disbursements)	(23,492)	475	5,663	(17,354)
Excess (deficiency) of receipts over				
(under) disbursements	(19,751)	158,126	11,075	149,450
Operating transfers:				
Operating transfers in	879,000	295,000	-	1,174,000
Operating transfers out	(10,381)	(194,488)	(28,094)	(232,963)
Net operating transfers	868,619	100,512	(28,094)	941,037
Change in cash balances	848,868	258,638	(17,019)	1,090,487
Cash balances beginning of year	168,505	189,933	48,206	406,644
Cash balances end of year	\$ 1,017,373	448,571	31,187	1,497,131
Cash Basis Fund Balances				
Restricted:				
Nonexpendable:				
Meter deposits	\$ 15,420	-	-	15,420
Expendable:				
Debt service	-	39,365	-	39,365
Capital projects	883,914	295,000	-	1,178,914
Unrestricted:	118,039	114,206	31,187	263,432
Total cash basis fund balances	\$ 1,017,373	448,571	31,187	1,497,131

See notes to financial statements.

CITY OF FAIRFAX  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**1) Summary of Significant Accounting Policies**

The City of Fairfax is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1936 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Fairfax has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn County Assessor's Conference Board, Linn County Emergency Management Commission, Linn County Joint E911 Service Board, and the Corridor Metropolitan Planning Organization.

**B. Basis of Presentation**

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on the non-fiduciary activities of the City.

For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories/components:

*Non-expendable restricted net position* is subject to externally imposed stipulations which require them to be maintained permanently by the City, including customer utility deposits.

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds. All remaining proprietary funds are aggregated and reported as non-major proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the

general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Local Option Sales Tax Fund is used to account for the local option sales tax allocation from the State of Iowa to be used according to voter wishes.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City wastewater treatment and sanitary sewer system.

C. Management Focus and Basis of Accounting

The City of Fairfax maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursements grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.



Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

*Restricted* - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

*Unassigned* - All amounts not included in other spendable classifications.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

### 2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investments trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified

as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

### 3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds of the City are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 830,000	197,503	133,000	56,580	963,000	254,083
2017	850,000	183,264	137,000	52,590	987,000	235,854
2018	840,000	167,854	141,000	48,480	981,000	216,334
2019	831,000	151,588	145,000	44,250	976,000	195,838
2020	851,000	134,256	150,000	39,900	1,001,000	174,156
2021-2025	3,777,000	369,451	817,000	127,980	4,594,000	497,431
2026-2029	699,000	36,942	363,000	15,660	1,062,000	52,602
Total	\$ 8,678,000	1,240,858	1,886,000	385,440	10,564,000	1,626,298

#### General Obligation Bonds

The agreement with the Iowa Finance Authority requires the City to annually pay a .25% servicing fee on the outstanding balance of the water improvement general obligation bonds issued on February 10, 2010, which had an outstanding balance of \$ 88,000 at June 30, 2015.

#### Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements to repay the \$ 2,400,000 of sewer revenue bonds issued on December 1, 2008 with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance (\$ 1,886,000 at June 30, 2015). The bonds are payable solely from sewer customer net receipts. For the current year, principal and interest paid and total customer net receipts were \$ 189,450 and \$ 157,651, respectively.

#### 4) Other Long-Term Debt

Annual debt service requirements to maturity for other long-term debt is as follows:

<u>Year Ending June 30,</u>	<u>Lease/purchase agreement</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 7,718	1,617
2017	7,965	1,370
2018	34,860	1,116
Total	<u>\$ 50,543</u>	<u>4,103</u>

#### 5) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available by mail at 7401 Register Drive, P.O. Box 9117; Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a regular member's monthly IPERS benefits includes:

- A multiplier (based on years of service)
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it greater than the highest five-year salary.)

A protection occupation member may retire at normal retirement age which is generally at age 55. A protection occupation member may retire anytime after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate protection occupation member's monthly IPERS benefits include:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but no more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefits payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total of 14.88 percent.

Protection occupation members contributed 6.76 percent of pay and the City contributed 10.14 percent for a total of 16.90 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$ 34,137.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$ 231,184. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportions for the regular membership group and the protection membership group were .005717 and .000222 percent, respectively, which was an increase of .000452 percent for the regular membership group and a decrease of .000081 percent for the protection membership group from their proportions measured as of June 30, 2013.

For the year ended June 30, 2015, the City's collective pension expense, collective deferred outflows and collective deferred inflows totaled \$17,332, \$ 12,724, and \$ 88,418, respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent annum
Rate of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expenses, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	<u>1</u>	(0.69)
	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City proportionate share of the net pension Liability	\$ 437,325	231,184	57,180

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.gov](http://www.ipers.gov).

**6) Other Postemployment Benefits (OPEB)**

Plan Description - the City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and spouses. At June 30, 2015, there were 6 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Health Care. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City.

The City currently finances the retirement benefit plan on a pay-as-you-go basis. The monthly premiums for the City and plan members are based on the age of the participant. For the year ended June 30, 2015, the City contributed \$ 59,528.

**7) Compensated Absences**

The City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death.

These accumulations are not recognized as disbursements until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2015, primarily relating to the General Fund is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 2,300
Compensatory hours	<u>6,800</u>
Total	<u>\$ 9,100</u>

The liability has been computed based on rates of pay in effect at June 30, 2015.

## 8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 are as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Urban Renewal Tax Increment	\$ 26,846
	Debt Service	872,000
	Enterprise:	
	Farm Operations	28,094
		<u>926,940</u>
Debt Service	General	71,900
	Special Revenue:	
	Urban Renewal Tax Increment	818,764
	Local Option Sales Tax	31,051
	Enterprise:	
	Water	10,381
	Sewer	194,488
		<u>1,126,584</u>
Enterprise:		
Water	Debt Service	<u>879,000</u>
Sewer	Debt Service	<u>295,000</u>
Total		<u>\$ 3,227,524</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

## 9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance in any of the past three years.



#### 10) Noncash Transactions

The City purchased a 2015 259D track skid loader as follows:

Purchase price	\$ 52,073
Trade-in allowance 2011 Cat Track	
Skid loader	(32,000)
Pay-off old lease	<u>30,470</u>
New lease @ 3.2%	<u>\$ 50,543</u>

#### 11) Commitments

<u>Construction Contracts</u>	<u>Remaining Balance</u>
Retainage 2 Contracts	\$ 70,453
Engineering-water project	<u>77,252</u>
Total	<u>\$ 147,705</u>
<u>Purchase Contracts</u>	
Firetruck	\$ 503,807
Siren	<u>56,477</u>
Total	<u>\$ 560,284</u>

#### 12) Subsequent Events

In August, 2015, the City entered into a construction contract totaling \$ 752,644 for a water project.

## OTHER INFORMATION

CITY OF FAIRFAX  
BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES-  
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
OTHER INFORMATION  
Year Ended June 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts Original	Final	Final to Total Variance
<b>Receipts:</b>						
Property tax	\$ 597,563	-	597,563	579,901	579,901	17,662
Tax increment financing	860,078	-	860,078	887,461	887,461	(27,383)
Other city tax	262,334	-	262,334	264,117	264,117	(1,783)
Licenses and permits	33,156	950	34,106	30,000	47,000	(12,894)
Use of money and property	9,373	20	9,393	28,000	28,000	(18,607)
Intergovernmental	781,113	-	781,113	861,550	861,550	(80,437)
Charges for service	3,453	709,517	712,970	771,095	771,095	(58,125)
Miscellaneous	60,313	12,393	72,706	52,100	59,100	13,606
<b>Total receipts</b>	<b>2,607,383</b>	<b>722,880</b>	<b>3,330,263</b>	<b>3,474,224</b>	<b>3,498,224</b>	<b>(167,961)</b>
<b>Disbursements:</b>						
Public safety	383,152	-	383,152	366,093	428,093	44,941
Public works	1,301,332	-	1,301,332	1,440,200	1,640,200	338,868
Culture and recreation	1,029,373	-	1,029,373	1,324,803	1,324,803	295,430
Community and economic development	15,740	-	15,740	8,000	50,000	34,260
General government	253,202	-	253,202	238,000	306,000	52,798
Debt service	1,146,467	-	1,146,467	1,132,877	1,157,877	11,410
Business type activities	-	573,430	573,430	1,093,900	1,093,900	520,470
<b>Total disbursements</b>	<b>4,129,266</b>	<b>573,430</b>	<b>4,702,696</b>	<b>5,603,873</b>	<b>6,000,873</b>	<b>1,298,177</b>
Excess (deficiency) of receipts over (under) disbursements	(1,521,883)	149,450	(1,372,433)	(2,129,649)	(2,502,649)	1,130,216
Other financing sources, net	1,210,163	941,037	2,151,200	1,900,000	2,150,000	1,200
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(311,720)	1,090,487	778,767	(229,649)	(352,649)	1,131,416
Balances beginning of year	2,276,692	406,644	2,683,336	1,060,282	2,683,336	-
Balances end of year	\$ 1,964,972	\$ 1,497,131	\$ 3,462,103	\$ 830,633	\$ 2,330,687	\$ 1,131,416

See accompanying independent auditor's report and notes to other information-  
budgetary reporting.

## CITY OF FAIRFAX

### Notes to Other Information - Budgetary Reporting

Year Ended June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2015, one budget amendment increased budgeted disbursements by \$ 397,000. The budget amendment is reflected in the final budgeted amounts.

CITY OF FAIRFAX  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
Last Fiscal Year  
(In Thousands)  
OTHER INFORMATION

City's proportion of the net pension liability (asset)	
Regular	.005717%
Protective occupation	.000222
City's proportionate share of the net pension liability (asset)	
Regular	\$ 231
Protective occupation	(-)
City's covered-employee payroll	
Regular	381
Protective occupation	1
City's proportionate share of the net pension liability as a percentage of its covered-payroll	
Regular	60.64%
Protective occupation	(24.37)
Plan fiduciary net position as a percentage of the total pension liability	87.61%

See accompanying independent auditor's report and notes to other information-pension liability.

CITY OF FAIRFAX  
SCHEDULE OF CITY CONTRIBUTIONS  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
Last 6 Fiscal Years  
(In Thousands)  
OTHER INFORMATION

	2015	2014	2013	2012	2011	2010
Statutorily required contribution	\$ 34	34	30	26	21	20
Contributions in relation to the statutorily required contribution	(34)	(34)	(30)	(26)	(21)	(20)
Contribution deficiency (excess)	\$ -	-	-	-	-	-
City's covered-employee payroll	\$ 382	382	342	321	308	302
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%

See accompanying independent auditor's report and notes to other information-  
pension liability.

## CITY OF FAIRFAX

### Notes to Other Information - Pension Liability

Year Ended June 30, 2015

#### Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by employee and employer, instead of the previous 40-60 split.

#### Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.



## SUPPLEMENTARY INFORMATION

## Schedule 1

CITY OF FAIRFAX  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN CASH BALANCES  
 NONMAJOR PROPRIETARY FUNDS  
 As of and for the Year Ended June 30, 2015

	<u>Enterprise</u>		
	<u>Farm</u>		
	<u>Garbage</u>	<u>Operations</u>	<u>Total</u>
Operating receipts			
Charges for service	\$ 122,426	8,976	131,402
Operating disbursements			
Business type activities	<u>119,572</u>	<u>6,418</u>	<u>125,990</u>
Excess of operating receipts over operating disbursements	<u>2,854</u>	<u>2,558</u>	<u>5,412</u>
Non-operating receipts			
Interest on investments	0	20	20
Miscellaneous	<u>0</u>	<u>5,643</u>	<u>5,643</u>
Total non-operating receipts	<u>0</u>	<u>5,663</u>	<u>5,663</u>
Excess of receipts over disbursements	<u>2,854</u>	<u>8,221</u>	<u>11,075</u>
Operating transfers out	<u>0</u>	<u>(28,094)</u>	<u>(28,094)</u>
Change in cash balances	2,854	(19,873)	(17,019)
Cash balances beginning of year	<u>19,677</u>	<u>28,529</u>	<u>48,206</u>
Cash balances end of year	<u>\$ 22,531</u>	<u>8,656</u>	<u>31,187</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ 22,531</u>	<u>8,656</u>	<u>31,187</u>

See accompanying independent auditor's report.

## Schedule 2

CITY OF FAIRFAX  
SCHEDULE OF INDEBTEDNESS  
Year Ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
<b>General obligation notes:</b>								
Sanitary sewer and refunding	Mar 1, 2008	3.10-3.40%	\$ 560,000	215,000	-	70,000	145,000	7,100
Water improvement	Mar 24, 2009	3.50-4.20	790,000	575,000	-	75,000	500,000	22,210
Total				\$ 790,000	-	145,000	645,000	29,310
<b>General obligation bonds:</b>								
Water improvement	Feb 10, 2010	3.00%	\$ 118,000	93,000	-	5,000	88,000	2,790
Fire truck and refunding	Sep 10, 2010	2.00	335,000	70,000	-	70,000	-	1,400
Water improvement	May 12, 2011	2.05-3.65	540,000	440,000	-	50,000	390,000	12,835
Water main improvement and Fairfax Athletics and Park Complex	Nov 10, 2011	2.00-3.00	2,260,000	1,910,000	-	175,000	1,735,000	44,390
Fire truck and refunding	Jun 26, 2012	0.85-1.70	590,000	430,000	-	85,000	345,000	5,193
Corporate purpose and refunding	Sep 10, 2013	1.00-3.00	2,485,000	2,285,000	-	220,000	2,065,000	47,543
Corporate purpose	Apr 8, 2014	2.00-2.75	1,330,000	1,330,000	-	-	1,330,000	34,104
Corporate purpose	May 12, 2015	1.00-3.00	2,080,000	-	2,080,000	-	2,080,000	-
Total				\$ 6,558,000	2,080,000	605,000	8,033,000	148,255
<b>Revenue bonds:</b>								
Sewer	Dec 1, 2008	3.00%	\$ 2,400,000	2,015,000	-	129,000	1,886,000	60,450
<b>Lease/purchase agreement:</b>								
Caterpillar 290 Track skid loader	Apr 30, 2015	3.20%	\$ 50,543	-	50,543	-	50,543	-

See accompanying independent auditor's report.

CITY OF FAIRFAX  
BOND AND NOTE MATURITIES  
June 30, 2015

Year Ending June 30,	General Obligation Notes					General Obligation Bonds				
	Sanitary Sewer and Refunding		Water Improvement			Water Improvement		Water Improvement		
	Issued Mar 1, 2008	Interest Rates	Amount	Interest Rates	Amount	Issued Feb 10, 2010	Interest Rates	Amount	Issued May 12, 2011	Interest Rates
2016	3.40%		\$ 75,000	3.50%	\$ 75,000	3.00%	\$ 5,000	2.05%	\$ 50,000	
2017	3.40		35,000	3.50	80,000	3.00	5,000	2.65	50,000	
2018	3.40		35,000	4.00	80,000	3.00	5,000	2.65	55,000	
2019				4.00	85,000	3.00	6,000	3.15	55,000	
2020				4.20	90,000	3.00	6,000	3.15	60,000	
2021				4.20	90,000	3.00	6,000	3.65	60,000	
2022						3.00	6,000	3.65	60,000	
2023						3.00	6,000			
2024						3.00	7,000			
2025						3.00	7,000			
2026						3.00	7,000			
2027						3.00	7,000			
2028						3.00	7,000			
2029						3.00	8,000			
Total			\$ 145,000		\$ 500,000		\$ 88,000		\$ 390,000	

Total 645,000

Year Ending June 30,	General Obligation Bonds					General Obligation Bonds				
	Water Main Improvement and Park		Fire Truck and Refunding			Corporate Purpose and Refunding		Corporate Purpose		
	Issued Nov 10, 2011	Interest Rates	Amount	Interest Rates	Amount	Issued Apr 8, 2014	Interest Rates	Amount	Issued May 12, 2015	Interest Rates
2016	2.00%		\$ 175,000	0.85%	\$ 90,000	2.00%	\$ 100,000	1.00%	\$ 65,000	
2017	2.00		180,000	1.25	85,000	2.00	100,000	1.00	180,000	
2018	2.00		185,000	1.25	55,000	2.00	100,000	1.00	185,000	
2019	2.00		185,000	1.70	60,000	2.00	105,000	1.40	165,000	
2020	2.20		190,000	1.70	55,000	2.00	105,000	1.40	170,000	
2021	2.40		195,000			2.00	105,000	1.80	170,000	
2022	2.60		200,000	2.45		2.05	110,000	1.80	175,000	
2023	2.80		210,000	2.75		2.25	115,000	2.15	180,000	
2024	3.00		215,000	3.00		2.40	115,000	2.15	185,000	
2025				3.00		2.50	120,000	2.35	190,000	
2026						2.60	125,000	2.35	135,000	
2027						2.75	130,000	3.00	135,000	
2028								3.00	145,000	
2029								3.00	152,000	
Total			\$ 1,735,000		\$ 345,000		\$ 1,330,000		\$ 2,080,000	

Total 8,033,000

(continued)

CITY OF FAIRFAX  
BOND AND NOTE MATURITIES  
June 30, 2015

Year Ending June 30,	Revenue Bonds	
	Sewer	
	Issued Feb 2, 2008	
	Rates	Amount
2016	3.00%	\$ 133,000
2017	3.00	137,000
2018	3.00	141,000
2019	3.00	145,000
2020	3.00	150,000
2021	3.00	154,000
2022	3.00	159,000
2023	3.00	163,000
2024	3.00	168,000
2025	3.00	173,000
2026	3.00	179,000
2027	3.00	184,000
Total		<u>\$ 1,886,000</u>

See accompanying independent auditor's report.

## Schedule 4

CITY OF FAIRFAX  
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION  
ALL GOVERNMENTAL FUNDS  
For the Last Six Years

	2015	2014	2013	2012	2011	2010
<b>Receipts:</b>						
Property tax	\$ 597,563	580,825	520,387	540,087	452,537	425,909
Tax increment financing	860,078	706,060	717,125	450,269	589,491	585,576
Other city tax	262,334	262,490	247,776	261,920	213,898	210,814
Licenses and permits	33,156	43,567	26,452	30,703	35,626	33,250
Use of money and property	9,373	10,956	13,876	29,960	24,692	33,586
Intergovernmental	781,113	443,071	347,783	334,696	288,938	288,017
Charges for service	3,453	3,832	5,105	10,240	4,425	-
Miscellaneous	60,313	78,937	142,454	65,599	46,696	86,731
<b>Total</b>	<b>\$ 2,607,383</b>	<b>2,129,738</b>	<b>2,020,958</b>	<b>1,723,474</b>	<b>1,656,303</b>	<b>1,663,883</b>
<b>Disbursements:</b>						
Operating:						
Public safety	\$ 383,152	478,843	400,435	262,658	327,357	155,302
Public works	1,301,332	1,925,806	417,548	265,955	462,784	336,818
Culture and recreation	1,029,373	767,059	1,602,417	1,123,820	253,544	219,882
Community and economic development	15,740	5,499	5,326	11,992	-	5,064
General government	253,202	270,829	198,952	240,765	189,052	206,012
Debt service	1,146,467	1,597,450	1,468,724	805,257	917,470	661,240
<b>Total</b>	<b>\$ 4,129,266</b>	<b>5,045,486</b>	<b>4,093,402</b>	<b>2,710,447</b>	<b>2,150,207</b>	<b>1,584,318</b>

See accompanying independent auditor's report.

**STEVEN S. CLAUSEN, CPA**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 18, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Fairfax's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fairfax's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfax's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fairfax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### City of Fairfax's Responses to Findings

The City of Fairfax's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Fairfax's responses were not subjected to the auditing procedures in the audit of the financial statements and, accordingly, we express no opinion on them.



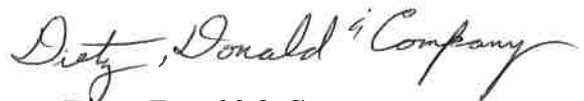
### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fairfax during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

December 18, 2015



Dietz, Donald & Company  
Certified Public Accountants  
FEIN 42-1172392

CITY OF FAIRFAX  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2015

Part I : Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses were identified.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

CITY OF FAIRFAX  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2015

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-15 Certified Budget - Disbursements during the year did not exceed the amounts budgeted.
- II-B-15 Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-15 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-C-15 Business Transactions - No business transactions between the City and City officials or employees were noted.
- II-E-15 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-15 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-15 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-15 Revenue Bonds - Debt service requirements for the sewer revenue bonds for the fiscal year ended June 30, 2015 were \$ 189,450, while the Enterprise, Sewer Fund net operating receipts were only \$ 157,651. It appears the debt service requirements exceeding net operating receipts in the Enterprise, Sewer Fund violates the revenue bond covenants.

Recommendation - The City should investigate ways to increase net operating receipts in the sewer enterprise activity.

Response - The City has increased sewer rates.

Conclusion - Response accepted.